Superregional Bank Holding Companies

Based on Total Assets on June 30, 1986
(Dollar Amounts in Millions)

Compiled by American Banker Copyright 1986

Rank		Total Assets
	NORTHEAST:	
13	Bank of Boston Corp.	30,434.2
29	Bank of New England Corp., Boston	18,249.9
43	Norstar Bancorp, Inc., Albany, N.Y.	10,283.5
44	Fleet Financial Group, Inc., Providence, R.I.	10,009.0
45	Hartford National Corp., Conn.	9,882.2
51	Shawmut Corp., Boston	8,982.2
62	KeyCorp, Albany, N.Y.	7,496.7
	MID-ATLANTIC	
21	PNC Financial Corp, Pittsburgh	20,133.0
38	CoreStates Financial Corp., Philadelphia	12,061.1
40	Midlantic Banks, Inc., Edison, N.J.	10,907.5
	SOUTHEAST	
17	NCNB Corp., Charlotte, N.C.	23,876.8
24	First Union Corp., Charlotte, N.C.	19,369.3
27	SunTrust Banks, Inc., Atlanta	18,827.1
30	First Wachovia Corp., Winston-Salem, N.C.	17,622.8
31	Citizens & Southern Corp., Atlanta	17,437.6
35	Sovran Financial Corp., Norfolk, Va.	14,234.8
54	Maryland National Corp., Baltimore	8,564.7
55	Signet Banking Corp., Richmond	8,517.0
57	United Virginia Bankshares, Inc., Richmond	8,418.3
78	Dominion Bankshares Corp., Roanoke, Va.	5,309.2
85	First American Corp., Nashville, Tenn.	4,957.4
	MIDWEST	
15	First Bank System, Inc., Minneapolis	27,156.0
22	Norwest Corp., Minneapolis	19,779.8
28	NBD Bancorp., Inc., Detroit	18,580.2
39	Banc One Corp., Columbus, Ohio	11,219.2
58	AmeriTrust Corp., Cleveland	8,445.7
64	Huntington Bancshares, Inc., Columbus, Ohio	7,016.8
67	Mercantile Bancorporation, Inc., St. Louis, Mo.	6,451.6
68	First Wisconsin Corp., Milwaukee	6,443.6
76	First of America Bank Corp., Kalamazoo, Mich.	5,461.9
87	Marshall & Ilsley Corp., Milwaukee, Wis.	4,864.9
	WEST	
7	Security Pacific Corp., Los Angeles	53,634.0
9	First Interstate Bancorp., Los Angeles	49,230.2
59	Rainier Bancorporation, Seattle	8,322.8

The American Banker defines a super regional banking firm as a non-money center company— ranked among the top 100 bank holding companies in assets on June 30—which has merged across state lines to establish a full commercial banking presence in another state.

Top 25 Banking Companies in the U.S.

Based on Net Income for First Half of 1986 Compared with the Full Year 1985

(In Millions of Dollars)

Rank 1986[1]	Rank 1985[2]		Net Income 1986[1]	Net Income 1985[2]
1	1	Citicorp, New York	$505.0	$998.0
2	2	J.P. Morgan & Co., Inc., New York	470.9	705.4
3	3	Chase Manhattan Corp., New York	289.5	564.8
4	6	Bankers Trust New York Corp.	220.2	371.2
5	5	Chemical New York Corp.	200.9	390.2
6	4	Manufacturers Hanover Corp., New York	196.0	407.5
7	7	Security Pacific Corp., Los Angeles	181.4	322.8
8	8	First Interstate Bancorp., Los Angeles	163.7	313.1
9	15	First Chicago Corp.	126.7	169.0
10	11	PNC Financial Corp., Pittsburgh	121.6	187.8
11	10	Wells Fargo & Co., San Francisco	117.7	190.0
12	9	Mellon Bank Corp., Pittsburgh	115.3	201.7
13	14	First Union Corp., Charlotte, N.C.	108.2	173.6
14	13	Bank of Boston Corp.	105.7	173.8
15	18	NCNB Corp., Charlotte, N.C.	102.8	164.5
16	16	SunTrust Banks, Inc., Atlanta	102.7	166.8
17	17	First Bank System, Inc., Minneapolis	96.2	166.8
18	20	Continental Illinois Corp., Chicago	80.6	133.2
19	22	Bank of New England Corp., Boston	80.1	131.2
20	24	Bank of New York Co., Inc.	78.9	130.3
21	27	Citizens & Southern Corp., Atlanta	74.9	124.6
22	23	Banc One Corp., Columbus, Ohio[3]	74.3	130.4
23	25	Barnett Banks of Florida, Inc., Jacksonville[4]	74.3	128.3
24	30	NBD Bancorp., Inc., Detroit	72.9	118.0
25	26	Marine Midland Banks, Inc., Buffalo, N.Y.	71.4	125.1

Net income is income after taxes and minority interest, but before preferred dividends and extraordinary items. The 1985 net income is as reported in 1986 and have not been restated.
[1] Based on net income for the first half of the year.
[2] Based on net income for the full year.
[3] Banc One six-month 1986 net income: $74,320,000.
[4] Barnett Banks six-month 1986 net income: $74,284,000

10 Largest Primary Capital-to-Assets Ratios Among Top 100 Firms in Assets

As of June 30, 1986 (Dollar Amounts in Millions)

	Primary Capital	Total Assets	Cap. Asset Ratio (%)	Asset Rank
1 AmeriTrust Corp., Cleveland	877	8,446	10.38	56
2 Fleet Financial Group, Inc., Providence, R.I.	945	10,003	9.44	44
3 Meridian Bancorp., Inc., Reading, Pa.	574	6,313	9.09	70
4 Norstar Bancorp., Inc., Albany, N.Y.	884	10,283	8.59	43
5 Union Bancorp., Los Angeles	794	9,270	8.56	49
6 KeyCorp., Albany, N.Y.	638	7,497	8.51	62
7 United Virginia Bankshares, Inc., Richmond	716	8,418	8.50	57
8 Banc One Corp., Columbus, Ohio	948	11,219	8.45	39
9 Norwest Corp., Minneapolis	1,652	19,780	8.35	22
10 J.P. Morgan & Co., Inc., New York	6,052	72,664	8.33	5

Top 100 Bank Holding Companies

Summary Statistics

(Dollar Amounts in Billions)

	June 30, 1986	June 30, 1985	Percent Change
Total Assets	$1,804.7	1,621.2	+ 11.3%
Total Deposits	1,241.8	1,124.4	+ 10.4%
Primary Capital	130.1	110.4	+ 17.8%
Ratio of Primary Capital to Total Assets	7.21%	6.81%	
Total Capital	167.1	128.8	+ 29.7%
Ratio of Total Capital to Total Assets	9.26%	7.94%	
Net Income First Half of Year	4.910	5.126	- 4.2%
Domestic Banks Controlled	1,362	1,302	+ 4.6%
Domestic Bank Branches	19,858	17,675	+ 12.4%

10 Smallest Primary Capital-to-Assets Ratios Among Top 100 Firms in Assets

As of June 30, 1986 (Dollar Amounts in Millions)

	Primary Capital	Total Assets	Cap. Asset Ratio (%)	Asset Rank
1 State Street Boston Corp.	395	6,925	5.70	65
2 BankAmerica Corp., San Francisco	7,338	117,314	6.26	2
3 Northern Trust Corp., Chicago	481	7,674	6.26	60
4 First Tennessee National Corp., Memphis	328	5,234	6.27	81
4 Valley National Corp., Phoenix, Ariz.	655	10,381	6.31	42
6 BayBanks, Inc., Boston	433	6,822	6.34	66
7 Bank of Boston Corp	1,965	30,434	6.46	13
8 First Interstate Bancorp., Los Angeles	3,212	49,230	6.52	9
9 Bankers Trust New York Corp.	3,433	52,400	6.55	8
10 Irving Bank Corp., New York	1,457	22,242	6.55	19

Superregionals Biggest Gainers Among Top 100 Banking Firms

Continued from Page 1

geographical breakdown of the 34 super regional banking firms; summary statistics for the top 100 firms compared with a year ago; the 10 highest and lowest primary capital-to-assets ratios; and the top 25 banking firms in net income for the first half of 1986.

The superregionals' impact on the aggregate totals for the top 100 banking firms was significant. For example, for the 12-month period ending June 30, the assets of the 34 superregional firms — spurred by their acquisition activity — jumped 26%, to $512 billion from $406 billion. The 100 largest banking companies, as a whole, posted asset growth of 11.6%. But, excluding the superregionals, assets rose only 6% at the top banking firms.

The superior growth of the superregionals boosted their share of total assets of the top 100 firms. As of June 30, the superregionals accounted for 28% of total assets of the top 100 firms, compared with 25% at midyear 1985.

Among the superregionals, the banking firms in the Mid-Atlantic and West showed weaker growth than the rest of the superregionals. While net income and primary capital was up 22.2% and 26.1%, respectively, for all superregionals, Mid-Atlantic superregionals' net income declined 13.5% and primary capital was up 14.5%. Western superregionals' net income was up 13.7% and primary capital increased 14.1%.

The lower figures for the Mid-Atlantic can be attributed to the continued stresses of "merger mania," as one bank analyst put it. "That's been a very active area for mergers and acquisitions in recent years and a lot of banks are still taking earnings hits because they're consolidating."

He went on to explain that three superregionals in particular — PNC Financial Corp., Pittsburgh; CoreStates Financial Corp., Philadelphia; and Midlantic Banks Inc., Edison, N.J. — have completed mergers and are still in the process of consolidating.

"This would slow them from building primary capital, might cut into their earnings, and they might be cutting asset growth in a consolidation bid after the mergers," he said.

The top 100 firms improved their primary capital-to-assets ratio 40 basis points during the year ended June 30, to 7.21% from 6.81%. During the same period, their total capital-to-assets ratio rose 132 basis points, to 9.26% from 7.94%. The more substantial rise in the total capital-to-assets ratio was attributable to the sizable growth in secondary capital, which jumped more than 100%, to $37 billion.

The main component of secondary capital is long-term debt. The growth in long-term debt has been helped by the low interest rate environment, which makes it considerably cheaper for firms to raise cash in the markets. In fact, debt issues by financial services firms for the first half of 1986 had already exceeded the total issued in all of 1985, a record year in itself for underwritings.

Other Survey Findings

- Deposits of the top 100 firms were up 10.4% during the year, to $1.2 trillion.
- As mentioned above, the average primary capital-to-assets ratio for the top 100 firms was 7.21%, up from 6.81%. Thirty-seven of the firms were below the average. State Street Boston Corp. had the lowest ratio — 5.70%. AmeriTrust Co., Cleveland, had the highest at 10.38%.
- Last year, none of the top 25 firms in assets was among the top 10 in the ratio of primary capital to assets. But this year two of the giants, J.P. Morgan & Co., New York, and Norwest Corp., Minneapolis, pushed into the 10 best. Norwest ranked ninth with a 8.35% ratio and Morgan was 10th with a 8.33% ratio.

Similarly, only two of the top 25 were among the 10 smallest in primary capital-to-assets ratios last year. But this year there were five: BankAmerica Corp., San Francisco, had the second lowest ratio among the top 100, 6.26%; Bank of Boston Corp. was the seventh lowest at 6.46%; First Interstate Bancorp, Los Angeles, eighth, with 6.52%; and Bankers Trust New York Corp. and Irving Bank Corp., New York, both at 6.55%, were ninth.

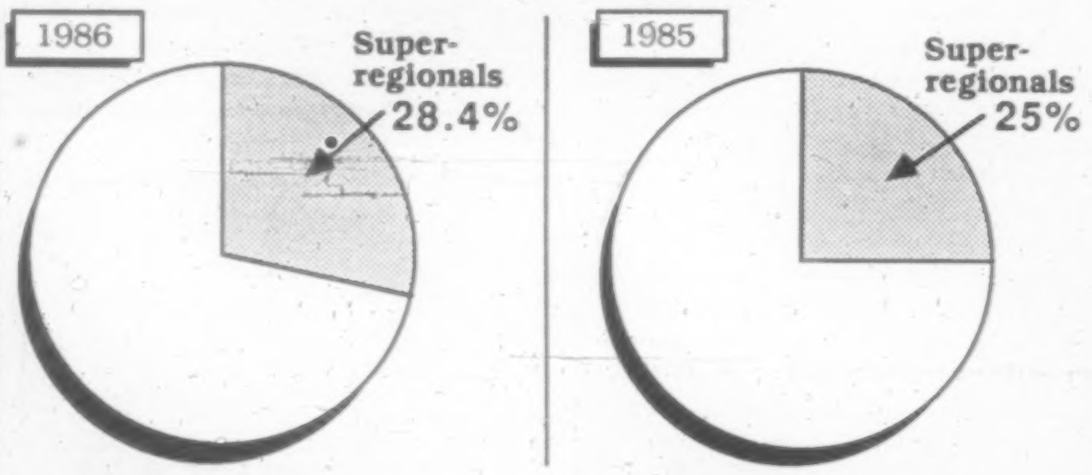
- The net income for the top 100 firms totaled $4.9 billion for the first

Top 100: Page 31

Superregional Growth Is Super

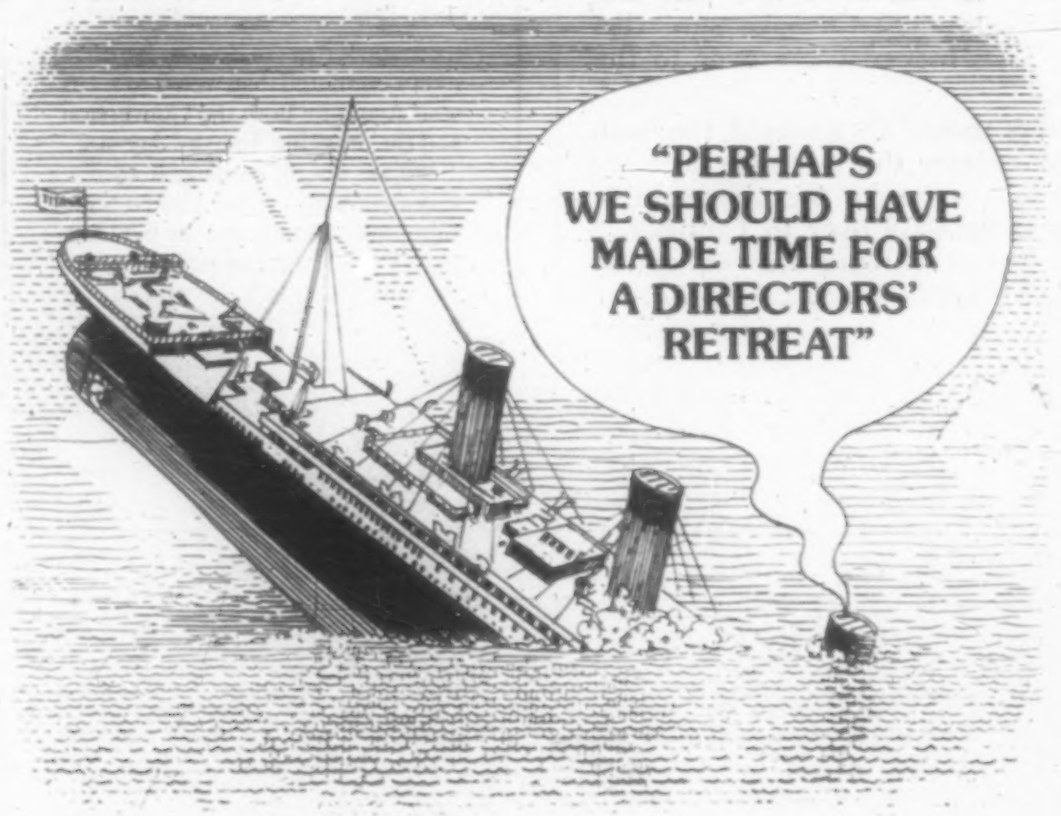
Asset Growth of Superregionals Compared with Top 100 Firms June 30, 1986 vs June 30, 1985

(In billions of dollars)



1986	
Total Assets:	
Superregionals:	$512
Top 100:	$1,805
Share of Top 100:	28.4%

1985	
Total Assets:	
Superregionals:	$406
Top 100:	$1,621
Share of Top 100:	25%



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Tracking, Relationship Pricing, and Execution Make a Difference

Continued from Page 19

Calling, Citidollars, and the like are examples of the "earn discounts or prizes for doing a lot of business with us" scheme. I consider this a form of relationship pricing because the price or benefits are dependent upon the extent of the purchase relationship.

This is clearly a very popular concept and many organizations have adopted it. A complete review is beyond the scope of this discussion; however, I'd like to offer two cautionary thoughts: 1) Even if the prizes cost nothing (i.e., they come from excess stock, donations for promotional consideration, etc.) the cost of administering it can be very substantial, including special phone banks and operators, special point tracking and accounting systems, and special catalogue-style mailers, just to name a few; and 2) Once into a program like this, it is almost impossible to get out. Do you really want to commit your organization to this forever?

One other comment on pricing. At all costs try to avoid cutthroat pricing competition. Those customers that do not value the relationship are indeed too expensive to serve and sell and may not be worth trying to acquire or retain.

Execution Is Critical

Let's finish with a few comments on execution. Somehow, when first writing this, there wasn't even a section on execution because it is so typical for marketing people to just assume that the execution will be brilliant and work. That's simply not true.

Execution, in and of itself, is critical to success. Great strategies with poor execution don't work, although I have found that mediocre strategies with outstanding execution can, in fact, work.

So execution is key. Not enough time is spent on what I call "executional strategy."

A lot of time is spent on copy, for a very simple reason: the creative product is often highly discussed and diagnosed because it's fun. It's fun to look at story boards, to look at direct mail letters, and the like. But do you spend as much time on your executional strategy as you need to?

Executional strategy means having a set of principles that guide your execution (we don't just mean a graphic standards book). Our executional strategy at Schwab, for example, involves the following kinds of elements.

We are a direct response marketer. Therefore, every ad we run, whether or not we consider it to be a pure direct response ad or an ad with a lot of image value, always has an 800 number and always has a coupon if it's in print. Our media strategy is to be opportunistic in our buys. We are always a buyer at the right price, and we always track our results to see if something is successful for us. Our executional strategy is straightforward: to test small, cut our losses, and roll out our successes.

Our executional strategy is to always stay with the principles of good direct response marketing, which is strong customer benefits, simplicity, and clean layouts through all of our ads.

Finally, I would say that our executional strategy also dictates that no one has a corner on all the expertise in our company. The experts are not always right; anything can be challenged and debated before it's done. The most junior person has every right to question and challenge the approach on any activity.

Let's conclude by reviewing a couple of quick case study examples of reasonably well-executed programs for improving customer loyalty and retention.

Shearson, several years ago, developed what was called The Serious Investor Newsletter, which was a four-page newsletter that went into every Shearson statement. The brand character of this newsletter and the brand character of Shearson were one: they were the "respected advisors to the serious investor." The communication strategy was to educate customers regarding products, make this newsletter interesting to read to build loyal readership, never be hard-sell, and offer lead generation via booklet offers within a business reply card. The result of this for Shearson was 96% readership of this newsletter, receiving 10,000 to 20,000 new leads per month, which was far beyond any of the hard-sell statement stuffer programs that had preceded this newsletter.

Program Based on Mortgages

Several years ago, Citibank began a very aggressive cross-sell relationship program based upon mortgages. The brand character of Citibank, I believe, was that it was an innovative, aggressive bank ("the Citi never sleeps"). The communication strategy was: "We'll give you a better price if you do all your banking with Citibank; Citibank should become your only bank." And if you did so, they would give you the "preferred" customer rate. Second point to the communication strategy was: "We'll give you an answer within two weeks, whereas the competition takes four to six weeks." The cross-sell strategy was to use mortgages as a way to get existing customers to consolidate all their business and new customers to bring their entire relationship to Citibank.

The result was that 98% of the customers who got a new mortgage with Citibank accepted the preferred customer rate and promised to bring all of their business to Citibank. By the way, the bank built in a rather elaborate tracking system since many customers had CDs that would mature in three, six, nine months down the road, and the bank wanted to make sure that those CDs indeed came over to the bank.

Before those CDs matured, the bank would contact the customer and remind him or her of the obligation to bring those CDs over to Citibank. I don't know whether the obligation would be legally enforceable, but the bank tried to imply that people had a moral responsibility to adhere to the agreement. The bank did retain the right, at any time they felt appropriate, to increase the customer's mortgage rate by one percentage point to what was the regular rate. The bank almost never had to do so.

My last case study is a reporting system that I've seen in several different banking and brokerage environments. This reporting system is basically a customer movement report, or what we at Schwab call a "was-is" report.

In the brokerage business, we might look at the amount of commissions generated by a customer or a group of customers in 1985 versus the amount of commissions generated by that same account or group in 1986. And when you see movement from good, profitable customer relationships to less profitable relationships, you should take action. You need to have the details to list those customers who are downgrading the relationship to find out why. It provides an early means of spotting customer attrition. Conversely, it also affords you the opportunity to thank those customers who have deepened their relationship by doing more business with you and to ask them for referrals.

In closing, I would like to say that getting new customers is a very difficult thing to do. Every time you get a new customer you are normally taking that customer away from somebody else. It takes superior salesmanship and superior products. It's often more difficult and less profitable to get new customers than to retain your existing customers and get more business from them. ■

Top 100 . . .

Continued from Page 30

six months of 1986, down 4.2% from $5.1 billion earned during the first half of 1985.

• The decline among the biggest in net income is directly attributable to the large losses suffered by three of the banking companies: BankAmerica, which lost $577 million; InterFirst Corp., Dallas, which lost $279 million; and First City Bancorporation of Texas, Houston, which was $217.3 million in the red.

When those figures are excluded, net income for the rest of the group was up 6.6%.

• For the top 25 firms in earnings, net income totaled $3.8 billion for the first half of 1986, up 21.0% from the comparable period a year earlier. Further, for the 10 money center firms, net income totaled $2.3 billion, up 14.2%. And for the 34 superregional holding companies, net income was $2.1 billion, up 22.2%.

• The top five bank holding companies in net income were all New York firms: Citicorp, with $505 million; J.P. Morgan, $470.9 million; Chase Manhattan Corp., $289.5 million; Bankers Trust New York Corp., rising two spots from yearend, with $220.2 million; and Chemical New York Corp., $200.9 million. First Wachovia Corp., Winston-Salem, N.C., and RepublicBank Corp. and MCorp, both Dallas, fell out of the top 25 in net income, since yearend rankings.

• From yearend 1985, the Mid-Atlantic and western banks performed below the rest of the top 100 companies, with assets declining 3.7% and 3.3%, respectively. ■

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VOL. CLI NO. 193 Thursday, October 2, 1986

TODAY

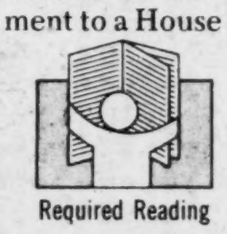
THE NEW PACKAGE FOR MEXICO is the first "concrete example" of banks' willingness to offer new money under the year-old Baker plan, says the plan's namesake, Treasury Secretary James A. Baker 3d..... 2

THE TSB GROUP, formerly the Trustee Savings Bank, is now in fourth place in the capital rankings of British banks as the result of a controversial but popular sale of shares to the public..... 2

CITICORP IS LOSING THREE MORE executives in Europe. The chairman of Citicorp Investment Bank Ltd. in London, John C. Botts, will leave at the end of the year to set up his own investment banking firm. The managing director of Citibank Savings, Anthony Lee, is also leaving, although it hasn't yet been announced officially. And Eric Mahoney, the executive director for the mortgage banking division of Citibank Savings, left last week..... 2

FREEDOM SAVINGS AND LOAN Association, the ailing Tampa, Fla.-based thrift, elected George H. Gage Jr. as chairman of the board, chief executive officer, and acting president. The sudden move came in a late night board meeting Tuesday in which the board replaced F. Philip Handy, who held the same three positions. Mr. Handy, 42, abruptly resigned as a director of the company at the meeting..... 3

PAUL A. VOLCKER, chairman of the Federal Reserve Board, in a statement to a House subcommittee, criticized U.S. reliance on foreign capital, warned that a reduction in the trade deficit is imperative, and called for banks to increase loans to developing countries by 7% by yearend..... 4



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While most banks have pledged their commitment to this effort, we should not score this as a success until the financing to support the programs is in place and the bank loans are made.

Treasury Secretary James A. Baker 3d assessing support for his initiative to ease the world debt crisis. [Page 2]

Unquote

Regional Banks Likely to Do Well In Third Quarter

But Money Centers May Have Trouble Matching '85 Results

By JOHN P. FORDE

NEW YORK — When money center banks report their third-quarter earnings later this month, they may have trouble matching their results for the same period of 1985, because of sagging loan volume this year and one-time gains last year that can't be repeated.

Third-Quarter Earnings

Brent B. Erensel, an analyst with Dean Witter Reynolds Inc., expects only a 4% rise in earnings for money center banking companies. But he expects a hefty 13% increase for regional banking companies over the same quarter last year.

He warned that multinational banks, especially in New York, may face difficult year-to-year comparisons because the third quarter of 1985 "included a number of nonrecurring items." The largest of these were a one-time benefit caused by a change in the New York State income tax, and the payment of interest on Argentine loans that had been in arrears.

The only large nonrecurring item among major money center banking companies this year, he figured, will be a $60 million pretax gain recorded by Chase Manhattan Corp. on the sale of Computer Power Inc., a mortgage processing subsidiary.

Major nonrecurring items among regional banking companies include a 28 cent per share loss in foreign exchange activities at Mellon Bank Corp., Pittsburgh, and a $300 million gain at Minneapolis' First Bank System due to a gain on its securities portfolio. First Bank System will offset this gain with a $270 million writedown of loans and a $30 million writedown of real estate.

Regional: Page 12 ➡

Cut in Thrifts' Home Lending May Be By-Product of Tax Act

Experts Say Deduction Formulas Favor Diversification

By NINA EASTON

LOS ANGELES — The tax bill passed by Congress last weekend could prove to be the Federal Home Loan Bank Board's worst enemy in its efforts to keep the attention of the nation's thrifts focused on home lending, many tax experts and industry officials say.

Thrifts

The tax bill "may remove some of the inducements to stay in home lending," said Douglas McEachern, national director of Touche, Ross & Co.'s savings and loan practice.

"Thrifts will diversify more because of the [tax changes]," said Thomas R. Bomar, managing officer of AmeriFirst Federal Savings and Loan Association in Miami.

The reason, these officials say, is that the tax bill reduces the incentive for maintaining a portfolio heavily weighted toward residential property assets.

The tax-overhaul bill sharply cuts a generous tax break that was reserved for savings and loans with portfolios dominated by home mortgages. While thrifts previously could take a deduction for their bad-debt reserves of as much as 40%, they will only be able to take 8% under the new tax bill.

In addition, the tax bill makes it easier for diversified institutions to take advantage of what's left of that break. Now institutions will only need to keep 60% of their assets in housing-related investments to take advantage of the bad debt deduction; that's down from 82% in the current tax code. (Cash and

Thrifts: Page 11 ➡

Metropolitan Life Stokes Century 21 As Distributor for Financial Products

By LYNN BRENNER

NEW YORK — Metropolitan Life Insurance Co. is forging ahead with ambitious plans to turn the Century 21 Real Estate Corp. into a distribution network for its financial products — even as Merrill Lynch & Co. abandons a similar real estate network and ambitions after a decade of investment.

Corporate Strategy

Metropolitan Life now is recruiting and training an entirely new 650-person sales force to sell financial products exclusively to Century 21 customers. By early 1988, these agents will be offering insurance and investment products and mortgages to Century 21 customers throughout the United States and in Japan, said Pierre Maurer, vice chairman of Metropolitan Life.

The salesmen will work out of the insurance company's offices, selling through a not-yet-established computer hookup among Metropolitan Life, Century 21, and the former CrossLand Capital, now called Metmor Financial Inc.

Metropolitan Life spent a total of $451.2 million last year to acquire Century 21 Real Estate Corp., the nation's largest real estate sales chain, and CrossLand Capital Corp., the fifth largest mortgage banking firm.

Meanwhile, Merrill Lynch said on Monday that it hopes to sell its own real estate brokerage and mortgage operation for more than $500 million. Merrill said it has concluded its money is better invested in traditional securities businesses than in a continued effort to establish synergy between 11,000 account executives and 14,000 independent real estate brokers.

The firm had spent more than 10 years and hundreds of millions of dollars expanding its 500-office residential real estate network.

Mr. Maurer said that the Metropolitan Life and Merrill Lynch real estate operations are not comparable at all. The two organizations, he said, are "entirely different."

As a securities broker, Mr. Maurer said, Merrill Lynch lacks the insurance products needed at the point of a real estate sale, and its affluent customers do not need help getting mortgages. "They're dealing with a very affluent, very sophisticated customer with established financial services relationships," he explained.

Century 21, like Metropolitan Life, serves the middle market. Mr. Maurer said that 42% of the real estate brokerage chain's customers are first-time

Metropolitan Life: Page 15 ➡

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Baker Touts Plan at Work In Mexico Deal

By GORDON MATTHEWS

WASHINGTON — Treasury Secretary James A. Baker 3d asserted on Wednesday that a new financial package for Mexico is the first "concrete example" of the lending banks' willingness to offer new money under his year-old plan to ease the debt crisis among developing nations.

After several days and nights of difficult talks, Mexico late Tuesday night won a significant reduction in the cost of funds from its bank creditors on a $43.7 billion rescheduling of old debts and a $6 billion new money facility, part of which will be cofinanced with the World Bank.

James A. Baker

The hours-old tentative agreement gave Mr. Baker a tangible bit of success to tout as he defended his debt initiative against both doubters and critics during a speech to the joint annual meeting of the International Monetary Fund and the World Bank.

Claiming that the "earliest returns" are encouraging, the Treasury secretary said that he had stressed from the start that his program — officially dubbed the "Program for Sustained Growth" — would be a long-term effort.

"The debt problem took years to unfold, and each nation's challenge is unique," he said. "So we must expect that they will progress at different paces, and that the overall solution will be neither quickly nor easily attained."

In his initiative, outlined at last year's IMF-World Bank meeting, Mr. Baker called on banks to provide $20 billion of new financing over three years as debtor nations implement economic reforms and turn from austerity to more growth-oriented policies. International agencies were also to provide new funds.

But little progress has been apparent since then, and Mr. Baker's proposals have sometimes been labeled unrealistic or too optimistic. Several leading bankers have said that they were "still waiting" for a chance to act under the initiative.

The Treasury secretary himself was cautious in reviewing the banks' part in the plan. "While most banks have pledged their commitment to this effort, we should not score this as a success until the financing to support the

Baker: Page 15 ➡

Corrections

Irving Bank Corp. reported net income of $64.5 million for the first half of 1986. In the listing of the Top 100 Bank Holding Companies published on page 21 of the Sept. 30 edition, second-quarter earnings were inadvertently reported instead of total earnings for the first two quarters.

□

The story "GM Readies Electronic Bill Paying" (Oct. 1, page 1) understated the number of suppliers used by General Motors Corp. The correct number is 20,000.

□

The "In the News" column on Sept. 12 (page 3) misstated the asset figure for First of America Bank Corp. The company has $5.5 billion in assets. ■

Citicorp Loses More Key Executives in Europe

Investment Bank Chairman, Two Citibank Savings Execs Submit Resignations

By PETER FIELD

LONDON — Citicorp is losing three more senior executives in Europe.

The chairman of the Citicorp Investment Bank Ltd. in London, John C. Botts, announced on Monday that he will leave at the end of the year to set up his own investment banking firm.

The managing director of Citibank Savings, Anthony Lee, also is leaving,

CITICORP ⊕ INVESTMENT BANK

although it has not been announced officially yet.

Another officer, Eric Mahoney, the executive director for the mortgage banking division of Citibank Savings, left last week. Confirmation of Mr. Lee's impending departure came from Mr. Mahoney at a joint "leaving party" for him and Mr. Lee at Citibank Savings on Tuesday night.

Analysts in New York and London said that while they saw no connection in the resignations of the three men, the loss of such high-level executives had to be troubling to the bank.

"The disturbing thing is that these resignations cover areas that the bank has been heavily committed to — areas where they have been spending a lot of money for a long time," said Bryan Crossley, senior international equity specialist at Merrill Lynch Capital Markets in London.

With three such resignations on the same day, Mr. Crossley said, "You have to ask what the heck is going on."

Lawrence Cohn, a banking analyst at Merrill Lynch, New York, minimized the effect of the resignations, however. With Citicorp's very large work force in London, he said, the resignations of senior people do not have nearly the same damaging effect as on a smaller institution.

Kent Price, Citicorp senior vice president in charge of United Kingdom operations, and Dolph Zubick, head of European consumer banking operations, both resigned earlier this year. The Citicorp Investment Bank in Switzerland lost three key people in June. And last week, three analysts left Scrimgeour Vickers, Citicorp Investment Bank Ltd.'s stockbroking operation in London.

The new company that Mr. Botts, 45, is setting up will be associated with a New York investment bank, Allen & Co., and will concentrate on corporate finance, direct investing, venture capital, and leveraged buyout financing. It will have $3 million in capital and be based in London, Mr. Botts' home for 13 years.

Glen R. Moreno, group executive of the Citicorp Investment Bank for Europe, the Middle East, and Africa, said the departure of Mr. Botts was "very

CitiCorp: Page 14 ➡

Make Way, Big Four — TSB Group Joins British Bank Majors After Its Controversial but Popular $2 Billion Stock Sale

LONDON — From now on, it will be necessary to talk about the big five British banks instead of the big four. The TSB Group (formerly the Trustee Savings Bank) has joined Barclays, National Westminster, Lloyds, and Midland with a politically controversial but enormously popular sale of shares to the public, which has taken it to fourth place in the capital rankings of British banks, ahead of Midland.

The TSB Group, with nearly 1,600 branches throughout the United Kingdom and assets of more than $17.25 billion, was previously unincorporated. The issue of shares worth $2.16 billion gives it a higher market capitalization than Midland.

The TSB Group's arrival in the big league — with $3.41 billion in equity and reserves, it's now in the top 20 in the world, ranked by capital — is remarkable for two reasons. First, being a totally domestic bank, it has virtually no overseas exposure, only 0.5% of assets. "The TSB issue is a golden opportunity to buy a bank cheaply without any Latin American debt," said an American fund manager in London.

Second, in these days of public worry about the health of the banking sector, the TSB Group attracted greater interest than any previous equity issue in the U.K., even the $5.61 billion British Telecom issue of 1984. Nearly five million applications seeking a total of 11.2 billion shares were received by the deadline on Sept. 24. That meant the issue of 1.5 billion half-paid shares, (the second half is payable in September 1987) at one pound British — or $1.44 — each, was eight times oversubscribed.

The TSB Group announced on Sept. 29 that more than three million people will receive shares, compared with 2.3 million in the British Telecom issue. TSB staff and customers of the bank are guaranteed allocations, though less than they sought. The rest of the applications have gone into a ballot and only one in two will be lucky. Again, the allocations will be scaled down considerably.

Institutional investors will be the most disappointed. Those applicants who wanted between one million and three million shares will get only 10,000; the 145 who wanted more than 3 million will get none at all. In contrast with the British Telecom float, foreign investment in TSB was discouraged as a matter of policy: Applications were limited to those with a British address and paying with a sterling check drawn on a British bank account.

Stock Price to Rise

The lure for investors was the certainty that the price would go to a substantial premium when trading in the shares starts on Oct.10. The certainty stemmed from the manner in which the TSB issue was floated.

The government of Margaret Thatcher has treated the TSB sale as part of the privatization program of state companies like British Telecom and Jaguar because it's keen to promote wider share ownership. Some depositors in TSB objected. They believed they owned the bank, and that selling to the public at large would dilute the principles of the founders.

The origins of TSB go back to 1810 when the Parish Savings Bank was established by the Rev. Dr. Henry Duncan in Rughwell, Dumfriesshire, on the west coast of Scotland just north of the English border. The aim of the pioneers of what became the Trustee Savings Bank movement was to serve the poorer sections of the population and plow back profits into the banks.

For the management of TSB, the restructuring of the group that culminated in the issue of shares was crucial. The trustee structure was cramping their ability to plan and to adapt to the rapidly changing financial services sector. They needed a strong capital base to expand and to obtain access to capital in the future. And they wanted to establish accountability for the group through wide share ownership. Spreading the shares widely also had another advantage.

"We wished to attract a very large number of members of the public as shareholders to increase our potential customer base," explained chairman Sir John Read, an industrialist who joined TSB in 1980 from the entertainment group EMI.

Legal proceedings by existing depositors delayed the original date of the float from February 1986. But after court battles and a House of Lords ruling, as well as much political controversy, the final legal decision in August was that TSB belonged to the state. This was embarrassing for the Thatcher government since it had already concluded that TSB didn't belong to anyone and it had given the go-ahead for the share offer.

As Terry Smith, an analyst at broker de Zoete & Bevan, noted: "Since neither the depositors nor the state has successfully claimed TSB Group's existing reserves of $874 million, these are effectively being given away. Consequently, the shares are inevitably being offered at a significant discount to net asset value."

Shares at a Discount

That discount is reckoned to be around 26%, while most U.K. banks at present trade around net asset value. The prospective price/earnings ratio for the TSB Group is 7.6, close to the 7.9 of the Scottish clearing banks (which also have high quality assets deriving from their low international exposure). But it is somewhat higher than the other leading clearing banks such as Barclays (5.9) and National Westminster (5.8).

In fact, broker Wood Mackenzie & Co. believes: "The TSB Group deserves to command a more demanding rating than the Scottish banks — a premium of around 5% to 10% above their p/e multiple appears reasonable."

Much depends on how the TSB management deploys the capital injection of $1.93 billion (the net proceeds of the issue) over the next year. Obviously, some of the proceeds will be spent on expanding the branch network in the south of England, where TSB is underrepresented, and on technology and automation.

But according to Peter Toeman, analyst at Phillips & Drew in London, "these objectives alone will absorb only a fraction of the extra capital." Projected capital expenditure is only about $150 million a year. The group already is underlent and it could, says Mr. Toeman, expand its balance sheet by 50% a year for the next five years before its free equity ratio fell back to the U.K. banking industry average.

A major acquisition seems the only way to achieve an acceptable return on the new equity. The group is forecasting a pretax profit of $278 million for its financial year ending Nov. 20, up 14% from a year earlier. The forecast for net income is $171 million, a 9.2% rise.

Simply investing the new capital in

TSB: Page 14 ➡

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American Banker

The Daily Financial Services News

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A MONEY BROKER'S SALES PITCH was "a blessing" in the fall of 1981, the president of an Alabama credit union testified in U.S. District Court in Oklahoma City. But the "blessing" gave way to a fraud lawsuit by the credit union against the money broker after Penn Square Bank in Oklahoma City failed on July 5, 1982... 8

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MARKETING TODAY

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Quote

It appeared to us that Lincoln Savings was expressing interest in employing me because the management of the institution wanted to buy me out of, that is to say, hire me away from, my job as the chief regulator.

Edwin Gray, chairman of the Federal Home Loan Bank Board. [Page 1]

Unquote

Random Thoughts

By SANFORD ROSE

The Federal Reserve Bank of New York has just issued a weighty tome entitled, "Recent Trends in Commercial Bank Profitability." The volume provides much revealing data and many pregnant insights — both first hand and second hand. Some gleanings, with editorial asides, follow.

Some bankers still think that the relative undervaluation of bank stocks is due to market inefficiency, fostered perhaps by the fact that bankers "poor-mouth" the business, in part to get better regulatory treatment. Other, perhaps more astute executives point out that market values are low in relation to book values because book values are fictitious. Some say that banks "are all walking around with assets under water," a phrase that used to apply to the investment account but now refers to the loan account.

Commercial bankers suffer from this problem because, unlike investment bankers, they don't routinely mark to market. Thus the investment banks' problems are "all out for people to see." The prob-

Random Thoughts: Page 4 ➡

Minority-Owned Banks Show Growth In Assets, but Decrease in Net Income

By KENNETH J. HICKS

NEW YORK — Minority-owned banks continued to show relatively strong growth in assets, deposits, and loans for the third consecutive year, but net income dropped considerably in 1985.

Of those commercial banks that did show across-the-board improvements, according to *American Banker's* annual canvass of minority-owned banks, there was an apparent shift in investment strategy, as they switched to higher yielding securities.

The survey also found that the number of minority-owned commercial banks has dropped. In the past 12 months, nine commercial banks have been taken off the Federal Reserve Board's list of minority banks, either due to closings or transfers to nonminority ownership. Only one new bank has been opened, bringing the total number of minority-owned institutions to 92.

These and other findings are summarized in the tables on pages 20, 22, and 23. They include a complete listing of minority-owned commercial banks as identified by the Fed (a commercial bank that is more than 50% owned by a minority group), showing deposits, assets, net loans, and net income at the end of 1985; a summary table of the 10 largest minority banks in deposits and net income, and the largest by minority

Minority: Page 17 ➡

Top 5 Minority Banks

	Deposits 12/31/85
International Bank of Commerce, Laredo, Tex.	$501,318,000
United Bank Alaska, Anchorage	$400,829,000
Bank of Miami	$320,956,090
Cathay Bank, Los Angeles	$294,391,000
Bank of Guam, Agana	$201,002,000

Gray Says S&L Tried to Hire Him Away

Institution Often at Odds With Regulator Made Offer

By BARTLETT NAYLOR

WASHINGTON — A thrift executive who has battled the chairman of the Federal Home Loan Bank Board over industry policies attempted to get the regulator to leave office by offering him a job, according to Bank Board officials.

Thrifts

Charles H Keating Jr., chairman of the board of American Continental Corp., the holding company for Irvine, Calif.-based Lincoln Savings & Loan Association, offered the job to Bank Board Chairman Edwin Gray on Nov. 22, 1985.

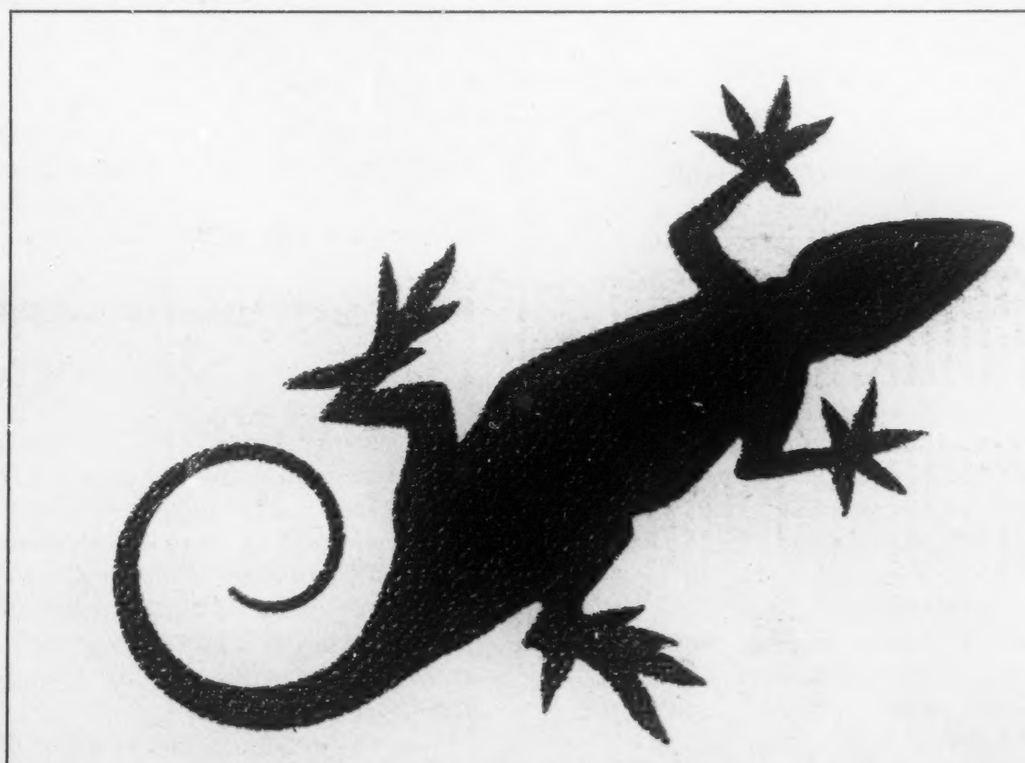
"I was frankly very surprised that an institution which had vigorously and continuously opposed key regulatory actions the board had both proposed and adopted would apparently be seeking to get me out of my job," explained Mr. Gray in a signed affidavit.

Government Report Suggests Insurance Funds Merge or Cooperate on Loans
Page 3

The affidavit was sent Sept. 19, 1986, to Sen. William Proxmire, D-Wis., who requested the information. Mr. Proxmire has been concerned about the practice of thrifts making direct investments in real estate, rather than in mortgages for home ownership.

It is this issue on which Mr. Gray and Mr. Keating have locked horns. California-chartered thrifts are empowered to invest all their assets directly in property, and Mr. Keating has taken liberal advantage of the freedom. Mr.

Gray: Page 15 ➡



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